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Letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith the report of the G-7 Finance Ministers to the Heads of State and Government entitled "Impact of the information technology revolution on the economy and finance" (see annex), which was adopted by the G-7 Finance Ministers at their meeting held at Fukuoka, Japan, on 8 July 2000.

I should be grateful if you would have the present letter and its annex distributed as a document of the fifty-fifth session of the General Assembly, under items 88 and 102 of the provisional agenda, and of the substantive session of 2000 of the Economic and Social Council, under item 13 of the agenda.

(*Signed*) Yukio **Satoh**
Ambassador Extraordinary and Plenipotentiary
Permanent Representative of Japan to the United Nations

* A/55/150.
** E/2000/100.

00-54734 (E) 070800

Annex to the letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

Impact of the information technology revolution on the economy and finance

Report of the G7 Finance Ministers to the Heads of State and Government

Fukuoka, 8 July 2000

Contents

		Paragraphs
	Introduction	1–2
A.	Macroeconomic Impact and Its Policy Implications	3–12
	Acceleration of Productivity and Increase in Demand	3–6
	Macroeconomic Policy	7–10
	Structural Policy	11–12
B.	Implications for the Financial Sector	13–23
	Impacts of the IT Revolution on Financial Services	14–15
	Financial Regulation and Supervision	16–21
	Financial Business Patents	22–23
C.	Taxation and Customs Procedures	24–28
	Electronic Commerce and Taxation	24–27
	Customs Procedures	28

Impact of the information technology revolution on the economy and finance

(Report of the G7 Finance Ministers to the Heads of State and Government)

1. We, Finance Ministers of the G7 countries, note that the advance of the Information Technology (IT) revolution holds the promise of becoming a major force in the global economy in improving productivity, raising maximum potential output, and promoting higher living standards. In order to ensure that the benefits of IT are promptly reaped by our societies and do not lead to increasing inequalities, countries must put in place appropriate macroeconomic and structural policies.

2. In this report, we focus on the macroeconomic impact of the IT revolution, its policy implications, and issues relating to financial transactions and tax systems.

A. Macroeconomic Impact and Its Policy Implications

Acceleration of Productivity and Increase in Demand

3. We recognize that IT has the potential to increase growth in our economies although the impact of IT is still at an early stage and it is difficult to anticipate its exact timing, nature and strength. The increase in production potential due to IT will not be limited to IT-related industries, but will extend to the overall economy. First of all, the IT revolution can increase the rate of growth of the capital stock by stimulating active IT-related investment. This kind of investment leads to increasingly sophisticated IT technology being built into capital and, accordingly, raises the quality of capital as well. More importantly, by increasing the speed with which information is disseminated and shared inside and outside corporations, the IT revolution can drastically alter the combination of capital and labor, bring about greater efficiency in conducting business, facilitate corporate restructuring, induce a synergistic effect, and thus lead to productivity increases that cannot be attributed to either capital or labor (total factor productivity). For instance, it can reduce the need for intermediary business, make inventory management more efficient, and enable businesses to procure inputs or conduct outsourcing in the business-to-business (B-to-B) market that is networked globally.

4. In addition to the supply side, the IT revolution will have effects on the demand side through increased IT-related investment, expansion of demand for IT-related services, and the development of new consumer-oriented services,

including business-to-consumer (B-to-C) electronic commerce and electronic financial transactions. Atwo-way flow of information between businesses and consumers made possible through the Internet can generate new types of demand and new business opportunities. IT-related investment and services would involve "network externalities" in which benefits increase dramatically as the number of users increases, and "increasing returns to scale" in which costs are reduced and profits increase as the market grows in size. These are likely to contribute to the further expansion of demand.

5. As a result of this accelerated growth potential on the supply side in parallel with expansion on the demand side, IT can contribute to stronger growth. like many other technological innovations, IT may bring job losses in certain areas, but create jobs in IT-related businesses. Overall, we can expect a positive impact on employment due to stronger economic growth.

6. Given that the IT revolution has just begun, over the course of time it can have wide-ranging and in-depth effects on our economies, in the same way that important general-purpose technologies had in the past. Already, significant effects on potential growth can be seen in some countries, but there are disparities in the pace at which countries are benefiting from the IT revolution. Indeed, there is nothing automatic about the productivity gains and higher standard of living that come with major innovations such as IT. Deriving the benefits of IT will require sound policies and a robust, but also flexible, open economy as an essential backdrop.

Macroeconomic Policy

7. We agree that the most important role to be played by government, in order to help our economies maximize the potential returns from IT, is to develop an environment that is conducive to private-sector creativity and entrepreneurship. We emphasize that, from this perspective, sound macroeconomic policy continues to be, or is becoming even more, essential. A growth- and stability-oriented macroeconomic environment will stimulate investment and help businesses and consumers to confidently plan for the future and exploit the advantages presented by IT.

8. The IT revolution can make the environment, in which macroeconomic policy is conducted, more complex and uncertain. In the initial stages of the IT revolution, estimating productivity gains and their impact on potential growth becomes more complex. Similarly, traditional yardsticks for gauging financial market performance may appear less applicable, and this has made it more

difficult to appropriately assess risk and return on investment decisions. These increased uncertainties can complicate the choices policy-makers face in calibrating macroeconomic policy management and promoting sustained non-inflationary growth. We must remain mindful of these realities in framing our policies.

9. In addition, in an increasingly globalized economy in which capital can be easily and quickly transferred across borders, differences in the degree to which countries adapt to the IT revolution may lead to large capital flows, and widen the divergence in economic performance between countries even further. Such divergences and the ensuing flows may further create challenges for the promotion of stable and balanced macroeconomic conditions. Achieving greater equality in the pace with which countries benefit from the IT revolution will contribute to promoting a balanced pattern of growth among our economies.

10. In the longer term, the IT revolution may have implications for monetary aggregates and their role in the conduct of monetary policy and for the stability of financial system more generally as electronic financial transactions and digital money become major elements of our national economies.

Structural Policy

11. We agree on the importance of structural policy to develop an environment for vigorous private-sector activity for maximizing the results of IT, and to ensure that people can fairly and widely share benefits from IT opportunities. From this perspective, we emphasize the necessity of:

a) Continuing to remove regulatory impediments in order to promote competition and new entry in key IT-related sectors.

b) Increasing the adaptability of labor markets. Retraining and learning opportunities can help workers successfully transition into new, better-paying jobs.

c) Putting in place appropriate competition and other policies to facilitate dissemination of new technologies and to ensure competition in the new environment.

d) Maintaining an open international trade system.

We note the importance of an efficient and high- quality allocation of our public

resources, with the view to contribute to needed structural reforms.

12. It is also crucial that financial markets be designed in a strong, secure and flexible way to channel resources to their most productive uses. A financial system that can properly match the demand for and supply of capital, and diversify and reallocate risks, is essential in order to meet the funding needs for new businesses and investment opportunities. For startup firms that lead in technological innovation and that seek to take the greatest possible advantage of their technology, a highly transparent and deep capital market will be of particular significance from the point of view of risk-taking and corporate governance.

B. Implications for the Financial Sector

13. We observe that the financial sector is undergoing many changes, including the emergence of financial transactions on the Internet. It is important that government provides an appropriate environment for maximizing the efficiency and convenience of this innovation.

Impacts of the IT Revolution on Financial Services

14. As the financial sector deals with information and data that are easily digitalized, this is one of the industries with the most advanced use of, as well as under the heaviest influence of, IT. Specifically, the IT revolution has enabled the following changes in the financial sector:

a) In electronic financial transactions, utilization of the Internet, with its characteristics of speedy, low-cost, and broad communication, can permit a drastic reduction in transaction costs and improvements in customer convenience.

b) By eliminating the limitations of time and distance, electronic financial transactions can make cross-border transactions easier and, thus, make it possible to provide services to customers on a global scale.

c) Electronic financial transactions have enabled new financial services such as the "virtual financial site" that includes services crossing the traditional borders between financial services as well as "aggregation" that allows consumers to obtain consolidated information about their financial accounts in one place.

d) In addition, under the IT revolution, globalization, and resulting competitive environment, we are seeing innovative developments in the unbundling of risks, the evolution of derivative transactions, and the entry of non-financial companies into the financial sector.

15. On the other hand, we note that, since electronic financial transactions, especially those of B-to-C, are being conducted on open networks centered on the Internet, many challenges will arise in terms of transaction security, consumer protection, and privacy.

Financial Regulation and Supervision

16. We recognize that, while financial regulation and supervision should be technology neutral, they should respond to the above-mentioned characteristics of electronic financial transactions. The objective should be to preserve market integrity without inhibiting the initiative of the private sector.

17. It is important that consumers have confidence in the security of electronic financial transactions. We should encourage the development of systems to combat computer hacking, and the use of encryption and electronic signatures to ensure the security of data. In addition, we need to ensure the development of reliable settlement systems on the Internet; the security of existing settlement systems, such as credit cards, will remain important.

18. For consumer protection in electronic financial transactions, it is important to ensure there is no erosion in the level of protection currently enjoyed by customers of financial services. Rules in areas such as disclosure to investors, explanation and information provision at the time of solicitation and purchase, the provision of documents to customers, and dispute resolution, should also apply to business conducted on the Internet, while methods of applications of those rules may need to be adapted. Also, as the transfer of personal data has become extremely easy, we need to promote strengthening of policies for privacy protection.

19. We should promote international cooperation in establishing as well as implementing principles for financial regulation and supervision, paying due attention to the current rules in each country. From this viewpoint, we welcome the work being done by the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS) in establishing

principles or guidance for the regulation and supervision of electronic financial transactions. We encourage further work by these institutions in line with the following focus:

a) Consistent regulation and supervision irrespective of the means of transactions, including electronic financial transactions.

b) Transparent regulation and supervision in a more complicated business environment, and flexibility to continuously review our supervisory activities to reflect new developments.

c) Fostering the potential of electronic financial transactions within prudent risk parameters without unduly constraining its innovation.

d) Security of transaction and customer protection pertinent to the characteristics of electronic financial transactions.

e) Enhanced cooperation among supervisory authorities in response to the increase in cross-border transactions.

20. We welcome the mapping exercise by the Financial Stability Forum (FSF) on electronic financial transactions, including their potential impact on financial safety, as a basis for possible future work.

21. Management and board members of financial institutions must understand the risks and challenges arising from the development of electronic financial transactions. Financial regulators and supervisors must also ensure that they have the necessary knowledge and skills to deal with the new development. From this viewpoint, we encourage our national authorities to promote methods and techniques for training supervisory staff in IT-related knowledge and skills, and ensure that adequate supervisory resources are devoted to this issue. We should also consider providing technical assistance to help developing countries in their efforts to train regulators and supervisors.

Financial Business Patents

22. With the revolutionary changes in technologies through computers and the Internet, patents have been granted to an increasing number of business method inventions, including in the area of financial services. We recognize that, with the development of IT in finance, our policies toward financial business method patents could have implications for innovation and competition in financial

markets. This issue needs to be addressed in the context of international cooperation with the view to enhancing common understanding of treatment of business method patents.

23. In this respect, we welcome the joint work already underway among our patent authorities on business method patents, and look forward to further development. We have asked our financial experts to meet with our patent authorities and to discuss whether and how the issues of common interest are being dealt with at the international level and how international cooperation in this field is progressing.

C. Taxation and Customs Procedures

Electronic Commerce and Taxation

24. We recognize that the IT revolution, especially the development of electronic commerce, has important implications for tax systems and their administration, in particular, through the changes discussed below.

a) Digitalization: IT provides innovative ways of offering "digital" services such as on-line supply of music and images, and for providing information services. Moreover, while broader use of electronic means for recording information improves the efficiency of business activities, it may make it easier to falsify data.

b) Disintermediation: Electronic commerce often eliminates the need for intermediation and thus reduces the opportunities of monitoring and compliance for taxation purposes.

c) Further internationalization: Cross-border transactions between parties in different tax jurisdictions can increase substantially through the Internet which is open and borderless.

25. We note the importance of the key elements for addressing issues on electronic commerce and taxation which were identified in the report of the Committee on Fiscal Affairs (CFA) of the OECD, entitled "Electronic Commerce: Taxation Framework Conditions" and welcomed by OECD Ministers in October 1998 in Ottawa.

a) It is important to provide a fiscal climate within which electronic commerce

can flourish, weighed against the obligation to operate a fair and predictable tax system that provides the revenue required to meet the legitimate expectations of citizens for publicly-provided services. In addition, efforts should also be made to improve taxpayer service by making utmost use of information technology.

b) Conventional taxation principles, such as neutrality, equity, and simplicity, should underlie the taxation of electronic commerce. At this stage, existing tax rules can implement these principles for electronic commerce. While there may be cases where some adaptation to the existing rules is required, such adaptation should not discriminate among forms of commerce, be they electronic or traditional.

26. We welcome the OECD's ongoing work on relevant taxation issues, focusing on the following points:

a) How to ensure efficient and effective tax administration: Electronic commerce can be conducted in more invisible and anonymous ways. It is vital, therefore, to secure access for tax administrators to transaction information to the same extent as for traditional forms of commerce.

b) How to apply the existing international rules for direct taxation to electronic commerce: As electronic commerce further facilitates cross-border economic activities, there should be clarification of how the concepts in the OECD Model Tax Convention, such as "permanent establishment" and classification of income, apply to electronic commerce.

c) How to apply consumption taxes to cross-border, on-line transactions: Consumption taxes should be applied where consumption takes place. In order to explore the practical application of this principle, issues, such as the definition of the place of consumption and effective collection mechanisms, are being addressed.

27. We recognize that the CFA of the OECD is taking the lead in the examination of these tax issues related to electronic commerce with contributions from business and non-OECD economies. We support this work and encourage the CFA to make further progress.

Customs Procedures

28. Regarding customs procedures, we endorse our customs experts' report on their efforts to standardize and simplify electronic customs declarations. We urge them to set a timetable for implementation, in which other countries and organizations are invited to participate; take steps to develop "single window" systems to allow traders to report data required by customs and other agencies once when they release goods; and so adopt the principles for the use of IT set out in the revised Kyoto Customs Convention.

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5 July-1 August 2000
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Implementation of General Assembly resolutions 50/227 and 52/12 B

Letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith the report of the G-7 Finance Ministers to the Heads of State and Government entitled "Strengthening the International Financial Architecture" (see annex), which was adopted by the G-7 Finance Ministers at their meeting held at Fukuoka, Japan, on 8 July 2000.

I should be grateful if you would have the present letter and its annex distributed as a document of the fifty-fifth session of the General Assembly, under item 94 of the provisional agenda, and of the substantive session of 2000 of the Economic and Social Council, under item 8 of the agenda.

(*Signed*) Yukio **Satoh**
Ambassador Extraordinary and Plenipotentiary
Permanent Representative of Japan to the United Nations

* A/55/150.
** E/2000/100.

00-54740 (E) 080800

Annex to the letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

Strengthening the International Financial Architecture

Report of the G-7 Finance Ministers to the Heads of State and Government

Fukuoka, 8 July 2000

A/55/158
E/2000/102

Strengthening the International Financial Architecture

(Report of the G-7 Finance Ministers to the Heads of State and Government)

A. Introduction

1. Following a series of crises that began in Asia in 1997, conditions in the world economy have stabilized and prospects for expansion have improved. However, in view of the rapid changes occurring in the global financial landscape, and in particular in light of the opportunities and challenges presented by the increasing size and importance of private capital markets, the international community must continue to address the challenge of promoting greater stability in the international financial system as a platform for sustainable world growth and prosperity.

2. We, Finance Ministers of the G-7 countries, submitted a report on strengthening the international financial architecture to the Cologne Economic Summit last year and set out a number of specific proposals toward reform. Since then, we have made substantial progress :

   a) Many developing countries are making efforts to enhance their financial stability by, for example, strengthening financial sectors, adopting appropriate foreign exchange regimes, improving debt management, and adopting internationally agreed codes and standards. Many of them are also making substantial investments in the information they provide to financial markets.

   b) The IMF has taken steps to implement an assessment framework for internationally agreed codes and standards and to make operational our approach to private sector involvement (PSI) in forestalling and resolving crises. Private sector investors and lenders have been more involved in the financing of recent IMF-led programs. In addition, the IMF Executive Board has deepened its discussions on exchange rate regimes, countries' experiences with capital controls, and other important issues. The transparency of the IMF and the Multilateral Development Banks (MDBs) has been significantly improved, including through greater publication of

documents.

c) The Interim Committee has been transformed into the permanent " International Monetary and Financial Committee (IMFC) "

d) The Financial Stability Forum (FSF) was created last year to enhance financial stability, improve the functioning of markets, and reduce systemic risk. As we requested, the FSF examined the issues of, and published reports this spring on highly leveraged institutions (HLIs), capital flows, and offshore financial centers (OFCs). The FSF also carried out work on the implementation of codes and standards on which it recently released a report.

e) The G-20 was established as an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system. The first meeting of G-20 Finance Ministers and Central Bank Governors was held successfully in December of last year in Berlin. The next meeting will be held in October of this year in Montreal.

3. In this report, we discuss how we can further enhance our efforts to strengthen the international financial architecture, carrying forward the reform program that we identified in Cologne. Given the leading role of the International Financial Institutions (IFIs) in implementing a significant part of the Cologne reform program, this report focuses on i) reform of the IMF - especially reform of its facilities, the promotion of the implementation of codes and standards, the enhancement of governance and accountability, and private sector involvement; ii) reform of MDBs; iii) responses to the challenges posed by HLIs, OFCs and cross-border capital movements; and iv) regional cooperation.

4. We are determined to implement all the measures in this report, as well as the broad range of measures endorsed at the Cologne Summit. We will work together with other members of the international community to make steady progress.

B. IMF Reform

5. In view of the changing global financial landscape, and in particular the increasing importance of private global capital markets, we believe it is essential that the international community continues to examine the role and functioning of the IMF and other IFIs. We look forward to exploring this agenda further in Prague this fall at the next meeting of the IMFC and at the next Annual Meetings of the IMF and the World Bank .

Key principles for reform of the IMF

6. At our meeting with Central Bank Governors in April, we laid out the following key principles, which reflect our shared understanding of the IMF's role as we move forward:

   a) The IMF should play the central role in promoting macroeconomic and financial stability as an important precondition for sustainable global growth and should continue to evolve to meet the challenges of the future.

   b) The IMF is a universal institution which must work in partnership with all its member countries, based on their shared interests in these goals.

   c) To be effective, the IMF and its activities must be transparent to the public, accountable to its members and responsive to the lessons of experience and external and independent evaluation.

   d) In order to foster strong policies and reduce countries' financial vulnerability to crisis, preventing crisis and establishing a solid foundation for sustainable growth should be at the core of the IMF's work. Surveillance of economic and financial conditions and policies in member countries and the implementation of internationally agreed codes and standards are primary tools for accomplishing these aims.

   e) IMF's financial operations should continue to adapt to reflect the realities of global capital markets while preserving the flexibility to support all member countries, as appropriate, including those with no immediate

prospects of market access. They should encourage countries to take preventive measures to reduce vulnerabilities and provide temporary and appropriately conditioned support for balance of payments adjustment, including in cases of crisis, and medium-term finance in defined circumstances in support of structural reform, while avoiding prolonged use.

f) IMF lending should not distort the assessment of risk and return in international investment. To this end, the IMF should take appropriate steps to ensure that the private sector is involved both in forestalling and resolving crises, which should help promote responsible behavior by private creditors.

g) While the World Bank is the central institution for poverty reduction, macroeconomic stability – a key tool for the achievement of poverty reduction and growth – is the responsibility of the IMF. The IMF has a crucial role in supporting macroeconomic stability in the poorest countries through the Poverty Reduction and Growth Facility, integrating its efforts with those of the World Bank in working with countries on poverty reduction strategies.

These principles will continue to guide our efforts on IMF reform moving forward in discussions within the IMF Executive Board and the IMFC, and in other fora as we work to implement concrete steps in advance of the Annual Meetings in Prague this fall.

Strengthening surveillance to prevent crises

7. There is consensus within the international community that, as we emphasized in our April meeting, strong surveillance must be at the center of the IMF's efforts to strengthen the world economy and the international financial architecture. In this regard, we reaffirmed the importance of a substantial qualitative shift in the nature and scope of the Fund's surveillance needed in light of globalization, large scale private capital flows, and the emerging framework of internationally agreed codes and standards.

a) The IMF should, in conducting its surveillance work, continue to sharpen its focus on macroeconomic policy, capital flows and structural issues which have an impact on macroeconomic stability, in particular in the financial sector, and on exchange rates with a view toward encouraging countries to avoid unsustainable regimes.

b) The IMF should continue to work to develop and make systematic use of indicators of national liquidity and balance sheet risks as a key part of the surveillance process. We believe that the IMF should begin publishing such indicators regularly together with relevant explanatory material.

c) The IMF has an important role to play in promoting transparency and the flow of information. We support the IMF in its efforts to promote the publication by countries of comprehensive, timely, high quality and accurate information in line with the Special Data Dissemination Standard (SDDS) and welcome the IMF's decision to highlight in a quarterly publication countries' achievement in this respect. We also support further actions to enhance the transparency of IMF surveillance through, inter alia, more general use of Public Information Notices following Article IV consultations and Reports on the Observance of Standards and Codes (ROSCs). In this respect, we support the principle of the release of IMF Article IV staff report, and look forward to the conclusions of the IMF Board review on the pilot project in this area.

Implementation of international codes and standards

8. We are determined to strengthen our efforts to promote the implementation of internationally agreed codes and standards as follows.

a) We confirm the IMF's leading and coordinating role in the assessment of countries' observance of international standards and codes and welcome the IMF's ongoing work in this area through Reports on the Observance of Standards and Codes (ROSCs) as well as through the joint IMF-World Bank Financial Sector Assessment Programs (FSAPs). We also welcome commitments by over 30 countries to undertake ROSC modules and the recent decisions by the IMF and the World Bank to expand the FSAP

program. We look forward to consideration of the modalities for voluntary publication of Financial System Stability Assessment (FSSA) reports.

b) We agree that the assessment process should cover the 12 key codes and standards highlighted in the Financial Stability Forum's Compendium of Standards, and be carried out on a modular basis. The IMF and national authorities, in consultation with the standard-setting bodies where appropriate, should be responsible for identifying priority standards for implementation by individual countries within the framework of a country's overall economic reform agenda. To enhance credibility, we encourage countries to articulate publicly their adoption of standards, announce their plans of action and participate in IMF-led assessment programs. In this regard, we welcome the commitments by the G-20 Ministers and Governors and by the Western Hemisphere Finance Ministers.

c) We agree on the importance of addressing market and official incentives in promoting observance of codes and standards. In this context, we underscore the need for greater disclosure and transparency about countries' intentions and progress in implementing codes and standards. We call on the IMF to ensure that the results of assessments of observance of codes and standards are published, and to continue its work on integrating such assessments into its regular Article IV surveillance process. We look forward to the results of further work by the Financial Stability Forum (FSF) on promoting market and official incentives, specifically regulatory and supervisory incentives. We also call on the IMF to explore further ways of promoting compliance with codes and standards. We look forward to further progress on an overall framework for the implementation of codes and standards at this year's Annual Meetings in Prague.

d) We agree that work to implement codes and standards will be most effective if combined with further efforts to foster ownership across a broad range of countries for the codes and standards processes. The IMF and the World Bank should assist countries in the development of action plans for the implementation of codes and standards. We agree to work together and with the IFIs, the FSF, and international regulatory and supervisory bodies

to provide technical assistance and training to emerging market and developing countries in this area.

e) In order to facilitate the conduct of consistent and objective assessments of countries' adherence to codes and standards, there must be regular, transparent, and constructive dialogue and cooperation between the institutions and agencies responsible. To this end, we call upon the IMF to chair a meeting of the relevant bodies to determine and report on how best to ensure that inputs from the relevant bodies concerned can be most effectively integrated in the surveillance process managed by the IMF.

Reform of IMF facilities

9. We reemphasize that the IMF's financial operations should continue to adapt to the globalization of capital markets, while preserving the flexibility to support all member countries, as appropriate, including those with no immediate prospects of market access, in light of their specific circumstances. Therefore, we attach priority to early progress in achieving a streamlined, incentives-based structure for IMF lending that encourages countries to develop stable access to private capital markets on a sustainable basis.

10. The IMF has already begun to simplify its facilities. Going forward, we continue to attach priority to the creation of a more effective structure for IMF lending consistent with this approach that would:

a) provide contingent support and incentives for countries to put in place strong ex ante policies to prevent crises, to observe internationally agreed standards and best practices, and to maintain good relations with private creditors (as is currently the case under the Contingent Credit Line (CCL)) ;

b) address temporary balance of payment imbalances as well as medium-term financing in defined circumstances in support of structural reform, while at the same time encouraging countries to move toward sustainable access to private capital(as is currently the case under the Stand-By Arrangement (SBA) and the Extended Fund Facility (EFF));

c) allow the IMF to respond rapidly and on an appropriate scale to systemic crises with appropriate terms to mitigate moral hazard and encourage rapid repayment (as is currently the case under the Supplemental Reserve Facility(SRF));

d) maintain a strong, focused role for the IMF in supporting sound macroeconomic policies in the poorest countries, integrating its efforts with those of the World Bank given the latter's responsibility for promoting poverty reduction and growth-oriented programs (as is currently the case under the Poverty Reduction and Growth Facility (PRGF)).

11. Specifically, we expect that reform of IMF facilities will be conducted as soon as possible based on the following:

a) The pricing of non-concessional IMF facilities should be fair and reflect their underlying objectives. The new pricing structure should establish more consistent incentives across facilities, encourage access to private capital, discourage prolonged use of, and deter inappropriate large scale access to IMF resources, thus contributing to their more efficient use. For all non-concessional facilities, the interest rate should increase on a graduated basis the longer countries have IMF resources outstanding. The possibility of adding a premium when the scale of financing goes beyond certain thresholds should be explored. In addition, for countries that continuously resort to IMF facilities, the IMF should make more intensive use of prior actions and limit access to its resources.

b) We also look forward to consideration of steps to encourage early repurchases once the IMF borrowers have returned to a sustainable economic and financial path.

c) We call upon the IMF to explore, in the context of the review of its facilities, appropriate uses of any resulting increase in IMF income within the existing framework of the Articles with the objective of targeting support to poorest countries.

12. Concerning specific IMF facilities:

a) The SBA should remain the standard facility to provide short-term assistance.

b) The EFF should be used in well-defined cases where medium-term structural reform is important, and longer-term maturity is appropriate due to the country's structural balance of payments situation and its limited access to private capital. This facility is expected to help countries to carry forward structural reforms necessary to achieve access to private capital over time.

c) The CCL should be reviewed with a view to enhancing its effectiveness without compromising the initial eligibility criteria. Specifically:

- The commitment fee for the CCL should be abolished.

- The initial rate of charge of the CCL should be reduced to a level below the initial rate of charge of the SRF. In this context, the progressive structure of the rate of charge of the CCL should be reviewed.

- The activation of the CCL should move to greater automaticity with regard to the initial drawing and within a predetermined limit, provided that appropriate reviews are conducted and that the ex-ante conditionalities are fully met.

- After approval of the arrangement committing CCL resources, frequent reviews, at least twice a year, on whether the user country continues to meet eligibility criteria should be conducted. A country should be required to exit the CCL when it becomes clear that eligibility criteria are no longer met. We call on the IMF to develop an appropriate exit strategy for these cases. If a country exiting the facility carries the risk of having a balance of payments problem, it should be encouraged to conclude an appropriate IMF program.

- In light of the abolishment of commitment fee, the reduction of the initial rate of charge and introduction of greater automaticity, the high

standards for qualification should be maintained.

d) The SRF should retain its character as an emergency instrument to respond rapidly and on an appropriate scale to crises of capital market confidence, with appropriate terms to mitigate moral hazard and encourage rapid repayment.

We will work together with other members of the IMF to implement the specific changes proposed and other steps needed to put in place this simplified and incentive-based framework of lending instruments.

13. Going forward, conditions on IMF lending should be focused and address issues of macroeconomic relevance, while adhering to high quality standards. The IMF should sharpen its focus on macroeconomic policies, capital flows, structural issues having an impact on macroeconomic stability, in particular those in the financial sector, and exchange rate regime with the view toward encouraging countries to avoid unsustainable regimes. Success of IMF-led programs depends on strengthened ownership of borrowing countries.

Safeguarding IMF resources

14. The IMF's new framework for the conduct of safeguard assessments adopted last spring, strengthened measures to discourage misreporting and a requirement that countries making use of Fund resources publish annual financial statements independently audited by external auditors in accordance with internationally accepted standards should be implemented vigorously to ensure that IMF funds are used appropriately.

Post-program monitoring

15. It is important that the IMF enhances its capacity to monitor performance while funds are outstanding in order to help ensure that countries maintain strong policies and avoid the need to return to the IMF for financial support. We therefore attach priority to early action by the IMF to strengthen procedures and policies with respect to post-program monitoring.

Strengthening governance and accountability

16. We continue to stress that high priority be placed on increasing the transparency and accountability of the IMF.

a) The IMF should continue its efforts to make its documents public.

b) We welcome the recent decision to publish quarterly the financial transactions plan and encourage the IMF to take further steps to explore a mechanism for simplifying its financial accounting, in order to make its financial operations and statements more understandable to the public.

c) The involvement of the IMF Executive Board in the process leading to the formulation of country programs should be further enhanced. The Board should be briefed at an early stage on important and sensitive cases.

d) We welcome progress made toward establishing a permanent independent evaluation office inside the IMF, and urge that steps be taken to bring this office into operation by the time of the Annual Meetings in Prague. We look forward to reports on the result of the evaluation by the office to the Executive Board, and regular reports on the activity of the office to the IMFC.

e) For the IMF to maintain its legitimacy, credibility, and effectiveness as a global institution in the international financial system, it is essential that IMF's decision-making structure and its operation remain accountable. We take note of the effort now underway in the IMF to examine the formula for calculating country quotas, which need to be able to reflect changes in the world economy.

We look forward to discussing these proposals constructively and cooperatively with other members of the IMF.

Private Sector Involvement (PSI) in Crisis Prevention and Resolution

17. We welcome that private external creditors, including bondholders, have contributed to the financing of several recent IMF programs of policy reform and recovery. This has confirmed the importance of making operational the framework we laid out in our report to Heads in Cologne.

18. Private sector involvement is crucial for crisis prevention and resolution, and further efforts must be quickly made to implement the following measures;

    a) Emerging market economies participating in international capital markets and their private creditors should seek in normal times to establish a strong, continuous dialogue.

    b) The IMF should also encourage the use of appropriate measures, including collective action clauses, to facilitate more orderly crisis resolution.

    c) The use of collective action clauses in international bonds issued by emerging market economies in our own financial market should be facilitated.

    d) The World Bank and other Multilateral Development Banks are urged to work to have such clauses used in international sovereign bonds or loans for which they provide a guarantee.

19. The approach the international community adopts towards crisis resolution should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access, informed by the country's economic fundamentals, payment profile, history of market access, and the market spreads on its debts.

20. All IMF programs need to include analysis of the country's medium-term debt and balance of payments profile, including a section explaining the assumptions taken about the sources of private finance.

    a) In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly.

b) In some cases, emphasis should be placed on encouraging voluntary approaches as needed to overcome creditor coordination problems.

c) In other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile.

21. In the case of c) above, where debt restructuring or debt reduction may be necessary, IMF programs should be based on the following operational guidelines.

a) Put strong emphasis on medium-term financial sustainability, with the IMF determining the appropriate degree of economic adjustment required by the country and the IMF and the country agreeing on a financing plan compatible with a sustainable medium-term payments profile.

b) Strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by IFIs. In cases where a contribution from official bilateral creditors (primarily the Paris Club) is needed, the IMF financing plan would need to provide for broad comparability between the contributions of official bilateral creditors and private external creditors. The Paris Club, if involved, should of course continue to assess the comparability desired and achieved between its agreement and those to be reached with other creditors.

c) Aim for fairness in treatment of different classes of private creditors and for involvement of all classes of material creditors. The IMF should review the country's efforts to secure needed contributions from private creditors in light of these considerations, as well as medium-term sustainability.

d) Place responsibilities for negotiation with creditors squarely with debtor countries. The international official community should not micromanage

the details of any debt restructuring or debt reduction negotiations.

e) Provide greater clarity to countries at the start of the process about the possible consequences for their programs, including in terms of official financing, of any failure to secure the necessary contribution from private creditors on terms consistent with a sustainable medium-term payments profile. Such consequences could include the need for a program revision to provide for additional adjustment by the country concerned or the option of reduced official financing, or, conversely, a decision by the IMF to lend into arrears if a country has suspended payments while seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements.

f) When all relevant decisions have been taken, the IMF should set out publicly how and what certain policy approaches have been adopted, in line with the Cologne framework.

22. We look forward to further progress at the IMF by this year 's Annual Meetings in Prague in making operational our approach, agreed last April, to PSI in the design of IMF programs so as to provide greater clarity to countries and market participants.

C. MDBs Reform

23. We affirm that accelerating poverty reduction in developing countries must be the core role of the Multilateral Development Banks (MDBs). An increased focus on poverty reduction should underpin all aspects of the MDBs' work, including in programs of policy reform, investment projects and capacity-building. MDBs need to adapt their organization and operations in order to fulfill this mission more effectively and consistently in a continuously changing international environment characterized by: a new understanding of the necessary elements of a more effective fight against poverty; growth of private financial markets in the developing countries; new opportunities and challenges arising from globalization; and stakeholders' stronger interest in efficient use of overall aid resources, and higher standards for transparency and accountability of MDBs.

24. Economic growth is the primary determinant of a country's ability to raise incomes and reduce poverty and inequality. Successful and equitable development also depends upon good governance, sound structural and sectoral policies, including social policy and trade liberalization, accountable and transparent institutions, and investment in human capital and public goods. Therefore MDBs should assist poor countries not only to meet such social priority as education and health, but also with economic and social infrastructure support where this has a clear additional impact on poverty reduction.

25. MDBs can also make an important contribution to poverty reduction in emerging market and/or middle-income countries. MDB activities in countries with access to private capital should be more selective in order not to supplant private capital. At the same time, in case of temporary closure of emerging market countries' access to capital markets, MDBs should stand ready to respond quickly by helping to cushion the effects of exceptional shocks on the poorest and most vulnerable groups.

26. In all cases, MDB multi-year operational frameworks should be established and should include clear commitments to increase support for core social investments such as basic health and education, clean water, and sanitation. They should respect appropriate country exposure limits.

27. MDBs should place high priority on good governance and the full commitment to the poverty reduction by recipient countries. They should allocate their support increasingly on the basis of borrower performance. Experience has shown that aid is only effective in reducing poverty where governments are committed to sound policies. In this regard, we stress the importance of the following:

    a) the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) should become the basis for programs that have strong ownership by the recipient countries; and

    b) performance-based lending frameworks, such as agreed under IDA-12,

should be extended in an appropriate manner to all MDB programs.

28. In addition, MDBs should include support for capacity-building and structural and institutional reform in their broad-based approach to assistance for developing countries. In particular, they should:

a) strive to enhance the overall financing capacity of recipient countries themselves, including by increasing domestic saving and by helping catalyze private capital flows;

b) address institutional and structural issues that hamper poverty reduction, to ensure transparency, accountability, the rule of law, and appropriate social and human investments for the poor; and

c) strengthen the financial sector in recipient countries so as to help them prevent and manage financial crises.

Since Country Assistance Strategies (CASs) are comprehensive tools for effective and efficient MDB support for developing countries, MDBs should work to improve their quality and broaden their scope. These strategies should take full account of a borrower's policy environment including governance as well as the legal, institutional and regulatory frameworks. Public Expenditure Reviews should be an essential building block of the strategies. Every CAS should provide an assessment of the country's financial sector and governance.

29. MDBs should avoid competition with the private sector, assume a catalytic role and focus their activities more selectively on projects with clear development and/or transition impact. As the private sector increasingly finances projects traditionally funded by MDBs, more public resources are likely to be available for investment in social sector and public goods.

30. MDBs, and especially the World Bank (WB), should take the lead in facilitating the provision of global public goods, by deepening their engagement in global issues such as infectious diseases and environmental problems closely related to development. In this regard, the comparative

advantage of various international institutions, including UN agencies (e.g. such as World Health Organization (WHO) and Joint UN Programme on HIV/AIDS (UNAIDS)) and private institutions should be carefully reviewed given the scarcity of concessional resources.

31. MDBs should emphasize a selective, quality-oriented approach rather than a quantity-oriented or profit-oriented one on the basis of clear definition of their roles as public institutions and their development mandates. MDBs which provide resources to private sector should better define their roles, organizations and operations in this respect.

32. It is important for MDBs to look afresh at the instruments available to fulfill their development and poverty reduction mandate in light of the principles described in the preceding paragraphs and in view of the changing international financial environment. In this regard, we call for a prompt initiation of a comprehensive review of loan pricing policy, including the question of price differentiation for the different types of operation. MDBs should also explore the possibility of some separation of lending and non-lending services to enable a wide range of countries to continue to benefit from MDBs' expertise.

33. Concessional lending by MDBs, focused on the poorest countries, has a critical role in poverty reduction. Replenishment of the concessional funds of the MDBs should be based on the principle of fair burden sharing and we encourage new donors to participate actively.

34. The quality of aid may, in some cases, be improved through healthy competition between the WB and some Regional Development Banks (RDBs). It is nevertheless essential that these institutions strengthen collaboration and coordination in order to ensure efficient use of scarce aid resources. The CDF initiated by the WB and PRSP can be useful tools in coordinating of bilateral and multilateral donors. The WB and the RDBs should conclude Memoranda of Understanding to frame their coordination and closer partnership taking into account circumstances of each RDB. In this regard, we welcome the recent agreement between the WB and the African Development Bank (AfDB). Collaboration in the field is particularly important

and, in this respect, a comprehensive review of the progress of the decentralization of the WB operations and the impact of this process on cooperation with the RDBs and on the quality of its projects and its administration would be welcomed.

35. The IMF and the WB have different mandates and need to respect them. Nevertheless, the issues they deal with are increasingly interrelated and in some countries their activities are interdependent. In this respect, they should continue to work closely together to improve efficiency and exchange of information. This would require a clearer definition of their respective responsibilities and activities, and continued development of more effective mechanisms of cooperation.

36. Finally, we call for greater accountability to shareholders and those affected by MDB actions. We therefore support the recent substantial progress that MDBs have made toward this goal. Nevertheless, there is a clear need for additional progress in such crucial areas as information disclosure, public participation and accountability to the shareholders:

a) A greater range of operational documents should be released to the public, particularly all country strategies and evaluation reports, while paying due attention to the influence on the market.

b) Independent inspection panels should be in place in an appropriate manner in all institutions.

c) Each institution should establish a compliance unit to certify full compliance of project proposals with its policies prior to submission to the Executive Boards.

d) Monitoring and ex-post evaluation function, internal financial controls, procurement policies and practices and auditing procedures of each MDB should be strengthened and all MDBs should have strong and independent evaluation units.

D. HLIs, Capital Flows and OFCs

37. We stress the importance of the implementation of the recommendations set out in the reports of the Financial Stability Forum (FSF) Working Groups on highly leveraged institutions (HLIs), Capital Flows, and Offshore Financial Centers (OFCs), which were released last March. In this regard, we call on the IMF, World Bank and other bodies to contribute actively to the implementation of the various recommendations by the FSF Working Groups.

38. To respond to concerns about the potential consequences of the activities of HLIs, which may contribute to systemic risks or affect the dynamics of certain markets, it is important to promote the implementation of the following measures:

a) Better risk management by HLIs and their counterparties.

b) Better disclosure practices by financial institutions, including enhanced disclosure by HLIs and their creditors. We call on all jurisdictions to consider the adequacy of their own disclosure requirements and introduce, where necessary, appropriate changes to legislation or regulations to ensure that major hedge funds located in their jurisdictions are subject to disclosure requirements. This recommendation should apply, in particular, to offshore centers, since they currently host a significant proportion of unregulated hedge funds.

c) Enhanced regulatory and supervisory oversight by national authorities of financial institutions which provide credit to HLIs.

d) Enhanced national surveillance of financial market activity in view of concerns about systemic risk and market dynamics caused by HLIs' activities.

e) Review by leading foreign exchange market participants of existing good practice guidelines for foreign exchange trading and the articulation of model guidelines for possible adoption by market participants in smaller economies.

f) Improved market infrastructure

We will review these measures and their implementation to determine whether additional steps are necessary. In this light, we note that the FSF considered in March, but did not recommend, at this stage, direct regulation of the currently unregulated HLIs, but emphasized that direct regulation would be reconsidered, if, upon review, the implementation of its recommendations were not adequately addressing concerns identified.

39. It is also important that each country manages debt-related risks appropriately. In this regard, we welcome the work being carried out by the IMF and World Bank, and urge prompt development of guidelines for public debt and reserve management, with special attention to the risk created by short-term foreign currency liabilities, and taking account of countries' vulnerability to capital account crises, including those vulnerabilities arising from the liabilities of the private sector. The establishment of efficient domestic bond markets is also important. Prudential limitations in the banking system to reduce the risk of excessive exposure to short-term capital flows may be appropriate in some circumstances.

40. Regarding offshore financial centers that do not meet international standards adequately, and therefore, that are potential threats to the international financial system, we welcome the identification by the FSF of priority jurisdictions, and urge the IMF to conduct quickly a specific assessment in these jurisdictions. We urge all the listed jurisdictions to demonstrate their commitment to improve their implementation of standards, for instance, through a public declaration of their intention to implement relevant international standards, completing assisted self-assessments of adherence to these standards, and eventually addressing shortfalls identified through detailed action plans.

41. To respond to risks caused by large and abrupt international capital movements, it will continue to be important for each country to pursue sound macroeconomic policies, proceed with structural reform for the better functioning of the market, strengthen the financial system, choose an

appropriate foreign exchange rate regime supported by consistent and credible macroeconomic policies and other measures, liberalize the capital account in a well-sequenced manner, and take other appropriate policies as needed.

42. Recognizing the crucial role of deposit insurance in contributing to confidence in the financial system, we look forward to further development by the FSF of guidance on deposit insurance schemes.

E. Regional Cooperation

43. As discussed above, IMF surveillance of, and appropriate financing support to, the member countries are important for the stability of the international financial system. In addition, member countries may strengthen, on a regional basis, their cooperation in these areas, in a way which is supportive of the IMF's objectives and responsibilities in the global economy, taking into account their common interests in international trade and investment and shared concerns about the risk of regional contagion. Such regional cooperation can improve regional stability and thus contribute to the stability of the global economy.

44. In this context, we welcome the recent developments in the area of regional cooperation at various levels. In the Asian region, frameworks for regional surveillance and for cooperation in finance including bilateral swap mechanisms have been expanded. In North America, a trilateral swap arrangement is maintained with a process for surveillance and regular consultation on economic matters.

45. Regional cooperation through more intensified surveillance can help contribute to financial stability by strengthening the policy framework at the national level. Cooperative financing arrangements at the regional level designed to supplement resources provided by the IFIs in support of IMF programs can be effective in crisis prevention and resolution.

46. In a different institutional context, economic and financial integration mechanisms, and monetary unification in Europe are also contributing to the economic and financial stability of the global economy.

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Letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

I have the honour to transmit to you herewith the report on the implementation of the G-8 action programme on forests (see annex), which was adopted by the G-8 Foreign Ministers at their meeting held at Miyazaki, Japan, on 12 and 13 July 2000.

I should be grateful if you would have the present letter and its annex distributed as a document of the fifty-fifth session of the General Assembly, under item 97 of the provisional agenda, and of the substantive session of 2000 of the Economic and Social Council, under item 13 of the agenda.

(*Signed*) Yukio **Satoh**
Ambassador Extraordinary and Plenipotentiary
Permanent Representative of Japan to the United Nations

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** E/2000/100.

00-54746 (E) 070800

Annex to the letter dated 17 July 2000 from the Permanent Representative of Japan to the United Nations addressed to the Secretary-General

REPORT ON THE IMPLEMENTATION OF THE G8 ACTION PROGRAMME ON FORESTS

page

I. **Executive Summary** 1

II. **Introduction** 3

III. **Implementation Highlights** 4

A. Monitoring and Assessment 4
B. National Forest Programme 6
C. Protected Areas 8
D. Private Sector 9
E. Illegal Logging 10

IV. **Conclusion** 11

I. Executive Summary

At the G8 Birmingham Summit in 1998, Heads of State or Government of eight major industrialized democracies and the President of the European Commission announced that in the year 2000 they would assess progress on implementation of the newly launched *G8 Action Programme on Forests*, which focuses on five areas of particular importance: (1) monitoring and assessment; (2) national forest programmes; (3) protected areas; (4) private sector; and (5) illegal logging. The Action Programme reflects a political commitment and aims to complement the extensive range of actions currently being taken by the international community and various regional and international processes.

This report, which will be considered at the Kyushu Okinawa Summit in July 2000, provides information on efforts made to date by G8 members domestically, internationally and collaboratively towards sustainable forest management. G8 activities since 1998 are diverse, reflecting the variety of their forest ecosystems, land ownership arrangements, administrative and governance structures, and international cooperation programmes, as well as G8 members' individual and collective leadership and endeavours with respect to forests. They also illustrate where the G8 members have capitalised on their strengths and worked cooperatively on a number of issues as opportunities arose, including in support of the Intergovernmental Forum on Forests (IFF). This report highlights some significant activities, while a more detailed overview is provided in the individual progress reports attached as Annex A.

In the area of **monitoring and assessment**, the G8 members took a wide range of actions from launching a new national forest inventory system to establishing a public-private stakeholder process on implementation of criteria and indicators, adopting national guidelines to assess forest resources, developing a national climate change strategy that includes forest sector issues, as well as improving the comparability of national inventories in Europe. The G8 members hosted international meetings on criteria and indicators under the Montreal and Pan-European processes and established new cooperative forest fire management programmes with partner countries in Southeast Asia, the Amazon, the Mediterranean basin and Central America. The G8 members are also in the early stages of initiating a collaborative effort to assess the enhanced use of remote sensing as a tool to inventory, assess, monitor and manage forests.

With regard to **national forest programmes,** G8 members' actions taken include adopting strategic documents on forest conservation and use, establishing a new national forest programme, enacting new legislation either nationally or to reduce debt in return for tropical forest conservation, and producing major policy documents on promoting sustainable forest management. Bilateral and international cooperation were strengthened to support national forest programmes in Africa, Asia, Central and Latin America and the Near East. The G8 members also sponsored international initiatives and experts meetings related to national forest programmes to support the work of the IFF.

With respect to **protected areas**, the G8 members took actions such as designating a new national protected forest system to preserve wildlife and other values, announcing plans to close extensive areas of national forests to harvesting and road building, expanding in a significant fashion protected areas, and establishing a border park to protect significant boreal forests and a European network of protected areas. Cooperative work on forest protection in

the Near East was expanded, and an international experts meeting on protected forest areas was co-sponsored to support the work of the IFF.

A number of G8 members' actions involved the **private sector.** These range from forming a national government-NGO coalition on new technology for forest industries to launching a public-private pilot project on sustainable forest management in Central Africa, creating a joint venture to restore Central American forests devastated by Hurricane Mitch, and announcing plans for a new fund to support private sector activities in East Asia. Further development was also seen domestically in voluntary certification schemes by the private sector, including NGOs, in voluntary codes of conduct by industry, in some cases with support from governments, through grants, studies and projects, as well as in assistance in aboriginal business development and local decision making.

In the area of **illegal logging**, the G8 members highlight a major review of the nature and extent of illegally harvested timber, new funding commitments to tackle this problem in partner countries particularly in Southeast Asia, as well as plans to host a regional conference on illegal logging and cross border trade. Funds were also provided through international organisations to improve statistics and economic information systems in tropical timber producing countries and increase market transparency.

The Action Programme on Forests launched two years ago represents the first consolidated experience for the G8 members in working together on the world's forests. It builds on individual G8 member's experiences and complements the extensive range of actions currently being taken by the international community in various regional and international processes. While the actions taken to date are important contributions towards sustainable forest management and in turn sustainable development, the G8 members recognise that further efforts are needed by all members to meet these ends.

II. Introduction

Heads of State or Government of eight major industrialised democracies (Canada, France, Germany, Italy, Japan, Russian Federation, United Kingdom, United States of America) and the President of the European Commission meet annually to discuss issues affecting people in their own and other countries. Recognising the continuing pressure on the world's forests and the positive contribution that sustainable forest management can make to sustainable development, the G8 Leaders at their summit in Denver 1997 reiterated their commitment to implement the proposals for action contained in the report of the United Nations Commission on Sustainable Development's Intergovernmental Panel on Forests (IPF, 1997) and agreed to support a practical Action Programme focused on five priority areas:

- **Monitoring and Assessment**
- **National Forest Programmes**
- **Protected Areas**
- **Private Sector**
- **Illegal Logging**

In May 1998, the **"G8 Action Programme on Forests"** was launched by G8 Foreign Ministers. G8 Leaders agreed at the Birmingham Summit to assess progress on implementation of the Action Programme in the year 2000.

The G8 Action Programme on Forests reflects political commitment and aims to complement the extensive range of actions currently being undertaken by the international community and various regional and international processes and to strengthen some activities G8 members have identified as issues of particular importance. The G8 Action Programme focuses on domestic actions by the G8 members and on areas where they can make unique contributions through their bilateral assistance programmes and through their support for intergovernmental processes.

This report provides information on efforts made to date. In Chapter **III. Implementation Highlights**, illustrative activities carried out in this context are highlighted by the five priority areas. Further information on current activities is provided in the individual reports of G8 members contained in **Annex A**. This report will be considered at the Kyushu Okinawa Summit in July 2000.

III. Implementation Highlights

This section contains highlights provided by individual G8 members on their efforts to advance particular aspects of the G8 Action Programme on Forests. Collectively these highlights illustrate the range of activities being undertaken cooperatively, internationally and domestically which support the Action Programme. Details on the work of each G8 member can be found in the individual reports included at Annex A.

Together, the G8 members account for nearly 40% of the world's forests[†] and the vast majority of bilateral assistance to forests. However, it is important to recognise that G8 countries are highly diverse regarding the extent and nature of their forest ecosystems, land ownership patterns, governance and regulatory systems, and terms of aid and international co-operation. The European Commission, as the executive body of the European Union (EU), is increasingly involved in major forest policy processes within and outside Europe.

The activities highlighted below reflect this variety within the G8.

A. Monitoring and Assessment

The G8 members have been making substantial efforts to develop better information on the state of forests and monitor and assess their condition, domestically and in many regions of the world. Canada, Japan, Russia and the USA are members of the 12-country Montreal Process on criteria and indicators for sustainable forest management, while France, Germany, Italy, Russia, the UK and the European Commission actively participate in the Pan-European Process on criteria and indicators for sustainable forest management.

In 1998 and 1999, Russia and the USA respectively hosted the 10th and 11th Meetings of the Montreal Process Working Group on Criteria and Indicators for the Conservation and Sustainable Management of Temperate and Boreal Forests. The meetings, held in Moscow and Charleston, South Carolina, brought together representatives of governments, international and non-governmental organisations, other criteria and indicators processes and academics, as well as a variety of domestic stakeholders, to advance implementation efforts. In 1998 countries reported their progress on institutionalising criteria and indicators, while at the 1999 meeting, among other things, they called on FAO to cosponsor with interested governments an international meeting to explore ways to improve comparability among the several existing criteria and indicator initiatives. Also in 1999, Canada, which serves as the Liaison Office for the Montreal Process, hosted a meeting with its Pan-European counterpart to share experiences and discuss further development of criteria and indicators, data collection and reporting and other issues of mutual interest.

The Third Ministerial Conference on the Protection of Forests in Europe, held in Lisbon in 1998, reached an important milestone when it adopted general criteria and indicators for monitoring and assessing sustainability of European forests, as well as *Pan-European Guidelines for Sustainable Forest Management at the Operational Level*. In October 1999 the Pan-European Process agreed a detailed programme of work which includes a review of the regional criteria and indicators for sustainable forest management and their refinement for use in national forest inventories and management plans within Europe. Further, the European Commission is in the process of improving comparability of national inventories and establishing a database for community forest measures and programmes.

[†] *State of the World's Forests 1999*, Food and Agriculture Organisation of the United Nations (FAO), Table 2.

In a related area, the G8 has begun work on a collaborative initiative to consider the enhanced use of remote sensing as a tool to inventory, assess, monitor and manage forests and detect and respond to forest related threats and disasters such as fire. Work is underway to make an inventory of existing G8 remote sensing initiatives, both domestic and in partnership with countries and international organisations.

Recognising the disastrous effects on forests of the catastrophic fires of 1998, as well as their threat to the global environment and regional stability, G8 members have strengthened and expanded co-operative activities with partner countries in Southeast Asia and Central and Latin America. For example in December 1998, Japan International Co-operation Agency (JICA), the International Tropical Timber Organization (ITTO), and the Indonesian government co-organised the *International Cross-Sectoral Forum on Forest Fire Management in Southeast Asia*, attended by over 200 experts from 17 countries and 8 international organisations, in order to share information, review existing forest fire management activities, and contribute to the effective implementation of future measures to combat forest fires. In addition, Canada worked closely with Mexico in early 1999 to develop and implement a new Forest Fire Information System for Mexico. It accesses weather data through the World Meteorological Organization and processes them through the Canadian Forest Fire Danger Rating System to produce daily fire weather and fire danger maps.

Individual G8 members have undertaken considerable efforts to better monitor and assess the state of forests domestically. In 1999 Japan launched a new nationwide Continuous Forest Inventory (CFI) to monitor and assess forest resources and their dynamics using nationally unified methodologies. The CFI is considering the compatibility with the Montreal Process criteria and indicators and so reflects the multifaceted components of sustainable forest management such as biodiversity, productivity, ecosystem health, conservation of water resources and global carbon cycles.

The Federal Forest Service of Russia adopted new Guidelines for the State Forest Account, which introduce uniform procedures consistent with the Forest Code and provide a basis for timely adjustment of national forest policies at federal and regional levels. In 1998 the Forest Account was conducted through a multi-factorial assessment of forest resources. A comparison of data between the periods 1993-98 and 1988-93 reveals a general improvement in basic characteristics of Russia's forests (e.g., increased area of forest lands, greater share of conifers in the "young stands" age group, and significantly shorter periods after which forest plantations are considered forested lands), while also identifying serious challenges facing regional forest management.

Germany is also carrying out a broad survey of its forests and various forest functions. Following up on the first Federal Forest Inventory in 1987, which supplied baseline information on forest area, shares of tree species, growing stock, forest structures, forest opening, etc., this second Federal Forest Inventory, scheduled for 2002, will provide additional, topical information on growth, removals and ecological parameters, taking into account the Pan-European criteria and indicators of sustainable forest management.

In 1998 the UK published the *Forestry Standard*, setting out how the principles of sustainability will be delivered, and the criteria and indicators by which sustainability can be assessed at national and forest management unit levels. The UK Government will monitor performance against these criteria, which will influence development and refinement of the *Standard* as well as related policy, regulations, incentives and guidance.

Also in 1998, in a major step to improve US forest monitoring and assessment nationwide, the Chief of the Forest Service launched the "Roundtable on Sustainable Forests," a unique public-private initiative bringing together representatives of federal, state and local government, NGOs, academia, industry and forest owners to facilitate implementation of the Montreal Process criteria and indicators for the 300 million ha of US forests, including 180 million ha owned by 10 million private owners. The Roundtable will hold a number of workshops in 2000 to address data collection issues for each of the seven criteria and their associated indicators.

B. National Forest Programmes

National forest programmes as defined in 1997 by the Intergovernmental Panel on Forests (IPF) encompass a wide range of approaches to achieve sustainable forest management reflecting national circumstances. In order to promote implementation of the many IPF proposals for action directed to countries, as well as to gain experience with national forest programmes, Germany and the UK together with several other developed and developing countries sponsored in 1998 the *Six-Country-Initiative* for putting the IPF proposals for action into practice at the national level. The initiative involved a series of case studies to assess the IPF Proposals for Action against national settings.

Several G8 members continue to be actively involved in supporting the Pilot Program to Conserve the Brazilian Rain Forest (PP-G7), which was initiated by the G7 at the Houston Economic Summit in 1990. Germany and the EU continue to be the major donors; other contributors include France, Japan, the UK and the USA.

France, Germany and the UK are also co-operating through UNDP's Programme on Forests (PROFOR) to promote sustainable forest management in a variety of partner countries, while Italy and Japan are actively working with FAO to the same end. The FAO-Italy Co-operative Programme includes numerous projects in the Mediterranean, Northern Africa and the Near East aimed at promoting and demonstrating complementarity among natural resource management activities, including forests, as well as economic efficiency and participatory and integrated approaches. Japan is working with FAO and the International Model Forest Network Secretariat to host a series of international workshops through 2000 on the promotion of model forests as a field-level application of sustainable forest management, particularly focusing on the Asian region.

G8 members strengthened or initiated bilateral activities with partner countries to support national forest programmes. For example, Germany has identified such programmes as a basic standard for its decisions regarding development co-operation with partner countries in the field of forests. In this context a German technical co-operation strategy is being elaborated to assist development co-operation agencies and their partners to implement the IPF proposals for action and develop national forest programmes.

Canadian development assistance continues in Asia, Africa and the Americas, with a focus on national forest programs and community forestry. Such assistance is administered through the Canadian International Development Agency and the International Development Research Centre, in partnership with Canadian groups and organizations in the private and public sector in recipient countries.

During the 1990s, France enhanced its support in several Mediterranean and African partner countries for environment and sustainable development co-operation projects focused on improving the management of natural resources, including forests and rangelands.

In 1998 US President Clinton launched a major new initiative to assist partner countries by signing the Tropical Forest Conservation Act (TFCA), authorising the reduction of official debt owed the US by tropical countries in exchange for forest conservation measures. The law expands the innovative 1992 Enterprise for the Americas Initiative, which has cancelled nearly $1 billion in official debt while generating substantial local currency for child survival and environmental projects.

The European Commission, recognising the growing importance of forests within and outside Europe, recently released several fundamental policy documents relevant to forest management, conservation and national forest programmes, including the *Forest Strategy for the European Union*. Moreover, a Council Regulation on support for rural development regulates financial support for forestry measures and links it to existence of and provisions in national or sub-national forest programmes. The EC supports numerous development co-operation projects with the objective of building capacity for national forest programmes in partner countries.

On the domestic front, G8 members have taken various steps to improve national forest programmes. In the context of *Comite 21*, France committed at the highest level to promote sustainable forest management by enacting a new forestry law entitled *Orientation and Modernisation Forestry Law* (*loi de modernisation et d'orientation forestière*).

Canada renewed its commitment to sustainable forest management by adopting a new five-year strategy to bring together the ecological, economic, social and cultural aspects of forest conservation and use. The National Forest Strategy (1998-2003), titled *Sustainable Forests: A Canadian Commitment*, is a collective attempt to reconcile the range of expectations placed on the forest and forest managers.

In October 1998, following a review of relevant national forest laws, Japan introduced a system to make available for public comment draft forest management plans at the local government level, and substantially expanded the roles of municipalities in its forest management planning system.

To preserve and improve long term functioning of its forests, Germany initiated a process of creating its own National Forest Programme based on experiences gained through the Six-Country Initiative and in close co-operation with States, NGOs and other relevant partners. Results are expected in late 2000.

In Russia, where forest fires are an acute problem causing significant economic and environmental losses, the Federal government has begun addressing fire through its national forest programme and in January 1999 approved the *Federal Target Programme: Forest Fire Management for 1999-2005*, which outlines urgent actions and targets to deal with forest fires. Programme implementation and timely investment in fire management are expected to reduce the number and area of anthropogenic forest fires and related economic losses, as well as conserve forest biodiversity, enhance ecological and resource potential of forest ecosystems, improve maintenance of carbon balance, and eventually meet the goals of the Russian Federation's Concept of Sustainable Development.

C. Protected Areas

The G8 members consider forest protection to be an important part of sustainable forest management and are involved in international and domestic efforts to enhance forest protection. For example, recognising the need to build consensus on forest protection and how to achieve it, the USA and Brazil co-sponsored the *International Experts Meeting on Protected Forest Areas* in March 1999 in San Juan, Puerto Rico as a contribution to the work of the IFF. France and the UK, as well as other countries and international organisations, collaborated as members of the organising committee for this meeting, which drew 130 experts from 70 countries, organisations, environmental and indigenous groups, research institutions and universities.

France, Germany, Italy, the UK and the European Community are co-operating under the *Pan-European Work Programme on the Conservation and Enhancement of Biological and Landscape Diversity in Forest Ecosystems,* which aims to conserve all types of forests in Europe and is complemented by EC research programmes on indicators for forest biodiversity, as well as programmes on natural forests and forest reserves. The European Community has also created *Natura 2000* to develop a cohesive European network of representative protected sites, including many forest sites, by 2004.

Complementing these efforts, Development Cooperation of Italy is actively involved in supporting a process of transboundary collaboration toward the sustainable management of protected ecosystems shared across international boundaries in the Peruvian and Bolivian Amazon, and in the contiguous National Parks in the South African region, by opening biological and economic corridors, harmonising respective standards, relevant legislation and management procedures, and by fostering collaboration across the borders by various abutting countries.

In 1999 Russia and Lithuania submitted a request to UNESCO, now under consideration, to include the Curonian Spit National Park in Russia and the Kurshu Nerija National Park in Lithuania on the list of World Cultural and Natural Heritage Sites. Russia is also working with Finland on plans to co-develop a border park in the frontier zone involving the Paanayarvi (Russia) and Oulanka (Finland) National Parks.

In Germany, 65% of its forests are under some sort of special protection, including 83,000 ha excluded completely from commercial uses. In the UK, the Government has initiated a review of its mechanisms for establishing and managing its protected areas.

To ensure the public benefit of forests, in December 1998 Japan formulated the *Basic Plan for Administration and Management of National Forests,* which introduced three new types of National Forest classification by the purpose of management: Forest for Water and Land Conservation, Forest for Humans and Nature, and Forests for Recycling Use of Resources. Japan has since expanded the first two categories, which are for public benefit, to include 80% of national forests, and has been also implementing a Protected Forest System to protect essential natural forests and precious wildlife habitats, which as of April 1999 encompassed about 514,000 ha in 812 locations within the country.

In October 1999, US President Clinton announced plans to protect an additional 18 million ha of national forests from commercial use in order to provide research sites, protect vital fish and wildlife habitats and guard against invasive species. A year-long review process will

solicit public comments and produce an environmental impact statement to determine the specific forests to be protected.

D. Private Sector

Individual G8 members have expanded their activities with non-government interests in order to promote sustainable forest management. For example, France has launched a pilot project on integrated sustainable management of tropical rain forests, which brings together local private and public stakeholders in the Dimako region of Cameroon to demonstrate in concrete terms how a tropical rain forest can be sustainably managed.

During his July 1999 visit to China, Japan's Prime Minister Keizo Obuchi announced the establishment of a fund (*"Obuchi Fund"*) to support Japan's private sector groups' activities with Chinese counterparts to promote afforestation in China.

The Italian Development Cooperation's project on the agroforestry systems in the Amazonia Region, in the Brazilian states of Rondonia and Acre, aims to help associations of small producers (principally *colonos* and *seringueiros*) in these two States, in finding new economic earning alternatives, that correct the tendency of predatory and indiscriminate exploitation of the natural resources, irreplaceable for the biosphere and for climatic balances, that cause massive deforestation of extensive areas in favour of wild grazing and/or mining.

The US Agency for International Development and the US Department of Commerce joined ranks with the American Forest and Paper Association under its *Sustainable Forestry Initiative* to restore areas of Central America devastated by Hurricane Mitch in 1999, including a pilot programme on the Honduran Island of Guanaja designed to establish the infrastructure needed for long-term sustainable forest management.

The European Community contributes financial support for forest management and conservation complementing the Member State's financial aid systems. EC contributions cover activities such as afforestation, improvement of established forests, reforestation after calamities, forest roads, marketing and processing of forest products, and facilitation of small owner co-operatives. The EC has supported forest certification as an evolving, voluntary, market driven instrument and as a potential, versatile forest policy tool through grants, by hosting conferences and by commissioning publications, as well as by supporting projects regarding certification in tropical partner countries.

In June 1999, the UK Woodland Assurance Scheme (UKWAS) was launched as a voluntary scheme for the independent certification of forest management in the UK. The scheme was developed by a broad partnership of forestry, environmental and social organisations in response to increasing demand for timber products from sustainably managed forests. UKWAS represents the first ever consensus on a forestry performance standard at a national level. UKWAS is managed by a Steering Group made up of representatives of all sectors and interested parties. In the UK, nearly 1 million hectares of forests and woodland, out of a total of 2.5 million, have already been certified against the UKWAS Standard.

The US considers public-private partnerships a powerful tool for sustainable forest management at home and abroad. For example, the US Government joined the Ford Motor Company and a consortium of environmental groups led by the World Wildlife Fund-US to prepare a comprehensive *Conservation Assessment of the Terrestrial Ecoregions of North America*, including forests, which was published in May 1999. In 1998 the US Department of

Energy and the American Forest and Paper Association expanded their co-operative *Technology Vision and Research Agenda 2020*, which promotes sustainable forestry practices across the US.

E. Illegal Logging

G8 members have strengthened their efforts to work with partners to assess the scope of illegally harvested timber, which robs governments and other forest owners of significant revenues and acts as disincentive to sustainable forest management. For example, in 1999 the UK completed a major review of this subject in Indonesia, *Addicted to Rent: Corporate and Spatial Distribution of Forest Resources in Indonesia; Implications for Forest Sustainability and Government Policy* and is following up on counter measures with the government and civil society organisations. In the same year, the UK provided funds to other partner countries to tackle illegal logging, and over a three-year period will support the *Forestry Crime and Reporting Project* in Cambodia and the core activities of *Global Forest Watch*.

The US has committed to hosting an regional conference in Southeast Asia, drawing on the results of the "Forest Law Enforcement" symposium sponsored by the World Bank in Phnom Penh, Cambodia in June 1999, as well as other work underway by governments and NGOs. The US is in the process of consulting with governments and international and non-governmental organisations on potential dates, venue and programme.

Japan has made financial contributions to the activities that aim to improve economic information and market transparency on timber trade. For instance, Japan has contributed funds through ITTO to the producer member countries' projects to develop their human resources and institutions, with a view to developing the statistics and information systems relating to the production and trade of forest products, and to enhancing their statistical processing ability. Furthermore, Japan has also contributed funds to ITTO for its co-operative activities with relevant international organizations to enhance the statistical functions and network internationally.

As documented in its development policy on forests, the EC supports rules that apply world-wide, in order to tackle the problem of trans-national logging companies operating in unregulated frameworks. The EC finances projects which deal with this vexing, persistent problem of illegal logging, and, in specific cases brought to its attention, has approached partner state governments.

The Italian Development Cooperation is actively involved in integrated programmes for the systemic management of forest resources and protected areas, all of which include initiatives to fight illegal hunting and logging, both directly by strengthening forest inspection and control services and the participation of local communities, and by providing economic and administrative incentives towards the establishment of forms of legal use of forest resources. Particular enphasis is given to the development of environmentally compatible forms of their utilization, e.g. ecological and cultural tourism, etc.

Domestically in the UK, tree felling is regulated through licences, management plans, tree preservation orders and statutory development control. All applications for felling licences are placed on a public register before approval is granted, to help the public identify and report unauthorised felling.

IV. Conclusion

The Action Programme on Forests launched two years ago represents the first consolidated experience for the G8 members in working together on the world's forests. It builds on individual G8 member's experiences and complements the extensive range of actions currently being taken by the international community in various regional and international processes.

This report demonstrates that G8 activities since 1998 are diverse, reflecting the variety of their forest ecosystems, land ownership arrangements, administrative and governance structures, and international cooperation programmes, as well as G8 members' individual and collective leadership and endeavours with respect to forests. The report also illustrates where the G8 members have capitalised on their strengths and worked cooperatively on a number of issues as opportunities arose, including in support of the Intergovernmental Forum on Forests (IFF).

While the actions taken to date are important contributions towards sustainable forest management and in turn sustainable development, the G8 members recognise that further efforts are needed by all members to meet these ends.

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Letter dated 18 July 2000 from the Permanent Representative of Maldives to the United Nations addressed to the President of the Economic and Social Council

I have the honour to forward herewith a letter dated 13 July 2000 addressed to you from Mr. Fathulla Jameel, Minister of Foreign Affairs of the Republic of Maldives, regarding the recommendation of the Committee for Development Policy to graduate Maldives from the list of the least developed countries (see annex).

I should be most grateful if you would kindly bring the present letter and its annex to the attention of the members of the Economic and Social Council and circulate it as an official document of the Council under agenda item 13 (a).

(*Signed*) Hussain **Shihab**
Permanent Representative

00-54554 (E) 250700

Annex to the letter dated 18 July 2000 from the Permanent Representative of Maldives to the United Nations addressed to the President of the Economic and Social Council

I have the honour to refer to the decision of the Committee for Development Policy during its second session, in April 2000, to recommend to the Economic and Social Council that Maldives be graduated from the list of the least developed countries with immediate effect. The recommendation is to be considered at the current session of the Council.

I am forwarding herewith a document prepared by my Government clarifying the position of Maldives in this matter and highlighting the serious ramifications of the course of action recommended by the Committee for Development Policy. We are of the opinion that while we have made some progress in our socio-economic development efforts, there are numerous circumstances and constraints that are peculiar to Maldives that warrant our continued access to the preferential treatment available to the least developed countries. We are convinced that graduation would not only make our current development status unsustainable but would also cause our socio-economic situation to deteriorate.

I would appreciate it if you could bring these matters to the attention of the members of the Economic and Social Council when the question of graduation of the Maldives is being considered.

(*Signed*) Fathulla **Jameel**

Enclosure

Memorandum containing observations and comments of the Government of the Republic of Maldives on the recommendation by the Committee for Development Policy to graduate the Maldives from the list of the least developed countries

Contents

		Page
A.	Critical factors not captured by the indicators used	5
B.	Key issues overlooked by the Draft Vulnerability Profile	9
C.	Inadequacy of the weight given to vulnerability	12
D.	Costs to the Maldives of graduation from LDC category	13

A- Critical factors not captured by the indicators used

The recommendation contained in the Report of the CDP on its Second Session is unjustified because the CDP's assessment ignores critical characteristics of the Maldives' development status and does not address or give adequate attention to a number of vital issues. The CDP's report cannot, therefore, be considered valid for the Maldives. For example:

1. Indicators used have not captured the extent of poverty and the level of regional disparities, nor have they been sensitive enough to the special circumstances of the Maldives that impose severe structural constraints to development. At the same time, the indicators have failed to highlight the lack of opportunity for economic diversification and the intensity of the vulnerability the country faces.

2. GDP per capita figure conceals the extent of poverty and income disparities in the Maldives. For example, one in four of all Maldivians live on incomes below the World Bank's poverty line of $1 per day; and 43% of the population live on less than $1.25 per day. The average income of 75% of the total population is merely $1.60 per day, in a situation where nearly all food and other basic items are imported, and distribution costs are high. In fact, according to the UNDP's Human Development Report 2000, the Maldives is the 7th worst country in the world in terms of malnutrition[1].

3. The use of per capita GDP is misleading because the GNP is significantly smaller than the GDP due to high dependence on imported labour and repatriation of profits. The per capita income in the rural atolls ($584) is less than one-half of the crude aggregate of per capita GDP. Similar disparities exist in access to basic services such as education, health care, water and sanitation and electricity. Such regional disparities exist because of severe structural constraints relating to the geo-physical layout of the country, the narrow economic base and the small size of the populations in the rural atolls. Collectively these features impede re-distributive policies and developmental efforts despite extensive and continuous programmes aimed at the development of the rural atolls.

4. The CDP looked at infant mortality rates although it had acknowledged that child (under 5) mortality is a better indicator for health status. The WHO ranking for child survival for the Maldives is 134th out of the 191 member states of WHO. All the threshold countries were ranked higher than the Maldives reflecting their better health status: Samoa 81st, Cape Verde 123rd

[1] UNDP, Human Development Report 2000, pp. 169-70, Table 4.

and Vanuatu 127th[2]. According to WHO data, child (under 5) mortality is 90 per thousand for males and 86 per thousand for females in the Maldives. These figures are also the highest mortality rates for the threshold countries: Samoa - 28 for males and 25 fc males; Cape Verde - 55 for males and 50 for females; and Vanuatu 64 for males and 57 for females.[3] This is notwithstanding the fact that at US$248.00 the Maldives has the highest per capita health expenditure (Samoa $108.00, Cape Verde $60.00 and Vanuatu $85.00,)[4]. Total expenditure on health as a percentage of GDP is 8.2% for the Maldives, 3.8% for Samoa, 3.3% for Vanuatu and 2.8% for Cape Verde.[5]

5. Although the Maldives is ranked 89 in the UNDP's Human Development Index, the UNDP's own Human Poverty Index shows that the extent of poverty in the Maldives is worse than deprivation in the next ten developing countries which follow the Maldives in the HDI ranking.[6]

6. The island structure of the Maldives, where the population is spread over 200 small islands (many of which become inaccessible for days during regular rough seas in monsoons), makes the constraints of the sea transportation system the most critical handicap to production and delivery of services. This is comparable to a total lack of feeder roads and railways between urban and rural areas in other countries.

   Additionally, transportation in the Maldives is constrained by the lack of port and harbour facilities and high costs. The low levels of consumption and production of the small island populations in fact restrict the development of a regular cost-efficient transport system. Inter-island transport is compounded by the strong currents that flow between the atolls, the dangerous reef entrances and the shallow waters of the lagoons. The lack of sea transport infrastructure leads to a pervasive multiplier effect constraining the entire economy in the Maldives.

7. Similar problems afflict other sectors of the economy. For example, in the Maldives, investment costs in telecommunications are disproportionately high. The distances that separate the atolls cannot be bridged by conventional microwave technology, leaving the nation no alternative but to make use of more expensive satellite technology.

8. The indicators do not capture the extensive constraints to human resource development and the dependence of human resource development programmes on aid. The dispersal of population over 200 islands, 90% of which have less than 1,000 inhabitants, imposes very high unit costs and diseconomies of scale in the provision of infrastructure for human resource development. The average construction cost of a primary school or a small

[2] WHO, The World Health Report 2000, pp. 177-183, Table 5.

[3] *Ibid.*, pp. 156-159, Table 2.

[4] *Ibid.* pp. 192-195, Table 8.

[5] Ibid.

[6] UNDP, Human Development Report 2000, pp. 169-70.

clinic on an island in the Maldives is five-six times higher than the cost of a comparable school in its South Asian island neighbour, Sri Lanka. The national burden is further magnified by the need for extensive replication of all services in each of the 200 islands due to the small size and insularity of these islands. This burden is far more severe than those experienced by land-locked small states, which can make use of the infrastructure and services of larger neighbouring countries.

Development efforts and prospects are severely constrained by low level of human resource development. This is evident in the fact that technical assistance consumes over 50% of foreign aid. Any decline in foreign technical assistance would seriously impair the programs in capacity building and institutional development

9. Lack of diversification and high vulnerability of the economy are areas of acute concern that justifies the continuation of preferences granted to LDCs. The narrowness of the economic base is evident from the excessive dependence on the single sector – tourism. It is estimated that gross income from tourism amounts to 84% of the GDP in recent years. Crises in the fisheries sector have increased dependence on the tourism industry, while low technology base, low levels of human resource development, high factor outlays necessitated by small scale, wide geographic dispersal and costs related to international and domestic transport have restricted opportunities for diversification. Dependence on imported raw materials further handicaps efforts to diversify.

10. The prospects for diversification of the Maldivian economy are relatively low given the associated high costs. Lacking both natural and human resources, the Maldives depends on imported raw materials and expatriate labour for the production of goods and services. Added to this are the high costs associated with transportation of the finished product to the various markets abroad, largely as a result of insufficient return cargo. For example, a 20ft container from the Maldives to a north European port is about US$1,500-1,700 compared to about US$600 from Bangkok. A similar cost difference is evident in-bound freight from its main source of imports, Singapore. While, the cost of shipping a standard container from the USA to Sri Lanka is in the order of US$600 the freight costs from Singapore to the Maldives, which is only a fraction of that distance, is nearly three times higher.

11. The high vulnerability of the economy to various shocks is itself encapsulated by the wide fluctuations registered by the Maldives in the scores recorded by the CDP for the country's economy since the EDI/EVI has been calculated. CDP scores for the Maldives on the EDI/EVI have fluctuated between 18.0 (in 1991), 11.0 (in 1994), 30.5 (in 1997), and 32.2 (in 2000).

12. Ecological vulnerability is not only a source of long-term threat. In the recent past, the Maldives has been severely affected on numerous occasions by extreme weather conditions that acquired the character of natural disasters. On one occasion, the damage was estimated at 22% of GDP. Moreover, the continuous exposure to such ecological hazards as coastal erosion and storm

surges is imposing a huge drain on available resources, including foreign aid. In the immediate aftermath of storm surges in 1987, the expenditure required for preventive measures exceeded $70 million dollars. Even at present, up to 90% of all inhabited islands suffer from coastal erosion. Some islands are seriously affected with the loss of not only the shoreline and vegetation but also houses and social infrastructure, compelling the Government to undertake urgent and costly resettlement programmes.

The necessity of adjustment to environmental threats imposes pressure to divert funds from essential socio-economic services to critical environmental protection measures, and, therefore, the opportunity costs of environmental programmes on social services are immense.

13. In many islands, groundwater supplies have been exhausted, are saline or contaminated, and populations are dependent upon rainwater, which is insufficient to meet even the basic daily requirements. Addressing this rapidly deteriorating situation requires continued donor assistance in complementing the government's efforts to provide basic services to the rural population.

14. The CDP's assessment did not consider the country's limited capacity to sustain its current level of development. The achievements made by the Maldives, in terms of its development indicators, cannot be maintained if aid programmes are withdrawn. The level of social and economic development is very highly dependent on external aid. Foreign aid constitutes over 17% of GDP, and 60% public investments. This dependence is accentuated by the low level of competitiveness in attracting FDI and the inability to borrow commercially - factors which constrain the country's flexibility to adjust to a decline in the level of aid.

A comparison of FDI flows to the four marginal countries in 1997 shows Maldives in the most vulnerable position[7]:

Vanuatu	$30.3 million
Samoa	$20.0 million
Cape Verde	$11.6 million
Maldives	$ 7.7 million (the highest ever recorded for the country)

15. The implications on the country from the loss of benefits of being an LDC were not considered. Due to high factor costs and diseconomies of scale, the Maldives is able to compete in international markets purely on the basis of preferential access available to LDCs. Thus, erosion of preferential access to markets will cripple the economy. For example, the tuna industry, which is the largest employer, will collapse due to the loss of preferential access to the EU market. At the present time even with a 24 percent tariff concession in the EU market, the Maldives is barely able to survive the competition. The loss of preferential access will have a similar impact on the garment industry. Moreover, options for the expansion of foreign trade, such as through the South Asian Preferential Trading Arrangement, will also be diminished.

[7] UNCTAD, The Least Development Countries 1999 Report, United Nations, Geneva, 1999, Table 12, p. 45.

The loss of concessions eligible to LDCs, given the small size of the economy, will impose an unbearable debt burden on the country, slowing the overall rate of economic growth and leading to macroeconomic instability. More than 80% of total capital expenditure on socio-economic services and 60% of total development expenditure are from concessional loans and grant assistance. Over 17% of GDP comprise foreign aid. Although the aid to GDP ratio of 17% may be comparatively small, the threat of declining assistance levels must be considered in conjunction with the constraints on attracting FDI, which remains at a very low level, the size of the current account deficit (15% GDP in 1999), and the extent and nature of the developmental challenges facing the country.

B- Key issues overlooked by the Draft Vulnerability Profile

It is appreciated that ECOSOC decided to draw up country specific Vulnerability Profiles to qualitatively crosscheck the results of the quantitative assessment. However, in the case of the Maldives, the Vulnerability Profile is as yet seriously insufficient in comprehensively addressing the omissions and shortcomings of the quantitative criteria. In fact, the draft Profile exacerbated the misrepresentation of the actual situation of the Maldives. Listed below are some of the vital aspects overlooked by the Profile on several of the measures that were qualitatively assessed. The section below follows the structure of the Summary Profile.

1. Income Criterion

1.1 GNP/GDP per capita

Although the Maldives has *prima facie* exceeded the graduation threshold by GDP, it must be noted that in the case of Maldives the GNP is significantly lower than the GDP. The GNP figure given in the summary profile is highly questionable. 20% of GDP goes to non-Maldivians. The deficit in net private transfers has increased throughout the 1990s, from US$22 million in 1994 to US$32.5 million in 1996. Thus the per capita GNP is likely to be well below the graduation threshold.

1.2 Income distribution

Income difference between Male' and the atolls is much greater than stated in the report – one in four of all Maldivians live on incomes less than $1 per day or below the World Bank's definition of poverty. 43% of the population live on less than $1.25 per day.

2. Human Resource Criterion

While the indicators used highlight some of the areas of success for the Maldives they do not present an adequate assessment of the actual situation.

2.1 Primary and secondary school enrolment ratio

Although primary school enrolment is high, not all school children complete primary school, and only 50% of the relevant age group is enrolled in secondary school. This is a reflection of the inherent structural problems of

smallness of island populations, accessibility problems and problems associated with fragmentation of the population over vast distances.

2.2 Nutrition

Though calorie intake may be high, under-nourishment is high (49%) in the rural atolls. Nearly all food items are imported and expensive. Close to 50% of all children suffer from stunting and wasting due to poor nutrition.

3. Vulnerability Criterion – External Shocks

3.1 Natural shocks

The profile used by CDP focuses on long-term threats while ignoring natural shocks experienced regularly.

3.2 Economic shocks

The chronic vulnerability of the economy is understated in the Report. For the last thirty years the Maldives has experienced a series of external shocks which have affected critical sectors of the economy.

Fisheries, the nation's only merchandise trade export crashed due to a protectionist ban by the market in the 1970s. In the 1990s, fisheries continued to suffer repeated crises due to fluctuations in the world market. Export revenues from fisheries were reduced by one-fourth in the early 1990s, and revenues further plummeted by 50% in the mid-1990s and has again declined sharply since 1998.

The tourism sector has similarly been susceptible to unpredictable negative developments such as recession in markets, conflict in the region and elsewhere (Sri Lanka and the Gulf War) and negative publicity relating to coral bleaching and threat of sea level rise.

3.3 Instability of production

Assessment of instability of production through its focus on agriculture and manufacturing is inappropriate for the Maldives. Crop cultivation is limited due to non-availability of arable land, and production is frequently affected by salt water intrusion through storm surges. Exposure to shocks is also highly evident in the fisheries sector, which is subject to climatic changes and the *El Nino* phenomenon. Moreover, given the dominance of tourism in the economy, the CDP should have looked at an indicator, which takes into consideration the vulnerability of this sector.

3.4 Instability of exports of goods and services

The statement that the country experiences only "limited instability" of exports of goods and services is inaccurate.

Fluctuation in fisheries exports is not noted. Volatility of investment, low retention value of income, and dependence on preferential access to markets in the garment industry are not considered. The high risk of dependence on tourism and the narrow market concentration of the sector are not taken into account.

4. *Vulnerability Criterion – Exposure to Shocks*

4.1 Balance of payments

Exposure of balance of payments to risks of instability in fisheries and tourism earnings is understated. Income from receipts from tourism is equivalent to 84% of GDP. 28% of government revenue is derived directly from tourism. Dependence on foreign aid (30% of government revenue) is not stated.

4.2 Income

The very high risk of serious income shortfalls because of high dependence on tourism is not stated.

4.3 Economic concentration

The statement that high economic concentration has not so far been a factor of vulnerability is incorrect. The crisis in fisheries sector has had far reaching negative impacts on the economy, especially on rural employment.

Single sector dominance (as a percentage of total exports) among the four marginal countries, reviewed by the CDP, is greatest in the Maldives[8]:

Maldives	Travel:	68.4%
Samoa	Travel:	47.7%
Vanuatu	Travel:	40.9%
Cape Verde	Air Transport:	26.8%

4.4 Economic specialization

Though the emergence of tourism as a dominant economic sector had initially offset instability in the fisheries sector, the subsequent over-dependence on tourism has, in fact, contrary to the Vulnerability Profile, increased the exposure to high economic instability.

4.5 Employment

Risk of departure of expatriates is not the only shock that may impact on employment. Weakness in the fisheries sector has serious consequences on rural employment. There is high exposure of employment to the risk of instability or decline in aid, considering the volume of jobs directly linked to the large number of aid-funded infrastructure development programmes. Low levels of human resource development impose continued dependence on expatriates.

4.6 Social Status

Geographic dispersal, inaccessibility, high unit costs, poor socio-economic infrastructure and lack of resources make social status still highly dependent on continued foreign aid. More than 80% of total capital expenditure on socio-economic services are from concessional loans and grant assistance.

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[8] UNCTAD, The Least Development Countries 1999 Report, United Nations, Geneva, 1999, Table 19, pp. 87-89.

4.7 *Environment*

The Vulnerability Profile only focuses on natural disasters and long-term threats. It understates the high vulnerability of the Maldives even to regular natural phenomena such as storm surges and coral bleaching, and man-made disasters such as oil spills. Adverse weather conditions, which are frequent, heighten inaccessibility of the islands, disrupting the economy and increasing exposure to shocks.

5. ***Vulnerability Criterion – Resilience to Shocks***

5.1 *Structural factors*

Contrary to the Vulnerability Profile, smallness and remoteness of the islands impose structural constraints on the entire economy, including tourism. Small domestic market, diseconomies of scale, high infrastructure and transport costs, lack of competitiveness, economic inefficiency, constraints on mobility of domestic labour and high costs of human resource development are handicaps for socio-economic development

Geophysical features, dispersal of population, low resource base and high economic concentration are major structural impediments to resilience to shocks.

5.2 *Policy factors*

The Vulnerability Profile's assessment of relevant policy factors does not highlight the dependence on continued assistance for sustaining current development and the inability to adjust to a decline in the level of assistance.

6. ***Global Assessment***

The Vulnerability Profile's global assessment needs to be adjusted in view of the above. The Maldives suffers from great economic disadvantages, great exposure to short-term external shocks, and high dependence on foreign aid, in addition to vulnerability to environmental factors.

C. Inadequacy of the weight given to given to vulnerability

Despite the importance given by the UN General Assembly to the issue of vulnerability, the CDP has recommended graduation of the Maldives even though the country does not qualify on the EVI index. Vulnerability is a crucial factor in determining the constraints affecting the development status and prospects of LDCs, especially small island states. It has an overriding negating effect on achievements highlighted by the income criterion and the human development criterion.

Moreover, the CDP's recommendation that ECOSOC consider what special assistance could be given to the Maldives in response to its exceptional situation (para 99 of the Report) was not highlighted in its recommendation to graduate the Maldives on the basis of the country meeting the technical criteria for exclusion from the list of LDCs. The cautious approach taken by the CDP itself warrants the importance of deferring the graduation of the Maldives until the ECOSOC has been able to identify a suitable manner and appropriate measures

through which the international community may respond to the special circumstances of the Maldives.

D- Costs to the Maldives of graduation from LDC category

1. ***Loss of preferential access to markets:***

- Tuna exports to EU, the major market, will be affected with the imposition of a 24% tariff. At present, even without the tariff, the Maldives is barely able to compete with its main rivals due to high unit costs and diseconomies of scale.

- The garment industry will be shut down as at present exports rely on preferential access to the US market granted to the Maldives as an LDC.

2. ***Decline in foreign aid:***

- Even at present, many donors are citing assessments made in previous CDP reports and are reducing levels of assistance. Graduation will result in further decline that would severely affect the country's ability to sustain development programmes or even to maintain the current level of development.

- 60% of total development expenditure is derived from foreign aid (grants and concessional loans).

- 80% percent of total expenditure on socio-economic services is derived from foreign aid.

- Decline in aid will lead to serious unemployment problems given the volume of jobs directly linked to the large number of aid-funded infrastructure development programmes.

- High factor unit costs, diseconomies and narrow resource base limit flow of FDI. The level of FDI the Maldives has been able to attract is significantly smaller than those of the other threshold countries. (Moreover, with the loss of GSP access, one of the main draw-cards for FDI will be lost).

3. ***Increased debt burden:***

- Acceleration of past debt obligation resulting in increased debt-servicing burden. Repayment instalments under all IDA, ADB and NDF loans (87% of total debt as at end 1999) will increase by 100% of the amount of each maturity due thereafter.

- The loss of concessions will also lead to macro-economic instability, especially as the current account deficit stands at 15% of GDP (1999).

4. ***Loss of access to other special arrangements:***

- This includes loss of access to numerous technical assistance programmes when 50% of current aid is in the form of TA's designed to enhance human resource

capacity building. Other arrangements that will be denied are special and differential treatment under WTO and special programmes devoted to LDCs by IMO, ITU, UNESCO, UNCTAD and other multilateral organisations as well as bilateral donors. Similarly, access to multilateral negotiating forums will also be severely affected due to loss of assistance currently given to LDCs to facilitate their participation.

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Social and human rights questions

Letter dated 24 July 2000 from the Secretary-General of the United Nations to the President of the Economic and Social Council

Further to my letter to you of 15 December 1999 concerning implementation of the advisory opinion of the International Court of Justice of 29 April 1999 on the Difference relating to immunity from legal process of a Special Rapporteur of the Commission on Human Rights (E/1999/124), I have the honour to inform the Economic and Social Council that, in a ruling issued on 7 July 2000, the competent judge of the High Court of Kuala Lumpur struck out the writ of summons in one of the four cases filed against Dato' Param Cumaraswamy, the United Nations Special Rapporteur on the independence of judges and lawyers in the Malaysian civil courts.

In dismissing the case, the judge stated that "the Malaysian Government had voluntarily acceded to be bound by the advisory opinion of the International Court of Justice" and that "it is also a fact that both the United Nations and Malaysia had agreed to accept the opinion given by the International Court of Justice as 'decisive by the parties'". He therefore concluded that he was "bound to give binding effect to the advisory opinion in this case" and proceeded to strike out the writ of summons. On grounds that the United Nations finds unacceptable, the judge in this case also decided that each party should bear its own costs in the proceedings. In this regard, the United Nations maintains its position that the Government of Malaysia is ultimately responsible for these costs in accordance with the advisory opinion of the International Court of Justice which, in commenting on the obligations of Malaysia, decided that Dato' Param Cumaraswamy must be held financially harmless from any costs imposed by the Malaysian courts.

While I welcome the fact that a competent court of Malaysia has finally upheld the advisory opinion of the International Court of Justice and therefore the immunity from legal process of the United Nations Special Rapporteur on the independence of judges and lawyers, I am nonetheless concerned that the ruling in question could be appealed by the plaintiffs and that it does not apply to the three other pending cases against Dato' Param Cumaraswamy. I also note that the Government of Malaysia has not itself taken any concrete steps to give effect to the advisory opinion.

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Notwithstanding the foregoing, I hope that, in the light of the precedent established in the above-mentioned ruling with respect to the remaining cases, I will finally be in a position to report to the Council in the very near future that the advisory opinion of the International Court of Justice has been fully implemented.

(*Signed*) Kofi A. **Annan**

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Social and human rights questions: human rights

Letter dated 27 July 2000 from the Chairperson of the Commission on Human Rights addressed to the President of the Economic and Social Council

I refer to the letter addressed to you on 22 June 2000 by the Permanent Representative of Germany to the United Nations (E/2000/107) concerning Economic and Social Council decision 2000/218 entitled "Question of the realization in all countries of the economic, social and cultural rights contained in the Universal Declaration of Human Rights and in the International Covenant on Economic, Social and Cultural Rights, and study of special problems which the developing countries face in their efforts to achieve these human rights", which is self-explanatory.

As noted by the Permanent Representative, owing to an unfortunate technical error by the secretariat of the Commission on Human Rights, the text which was before the Council at the time of the adoption of decision 2000/218 was slightly different from what had been finally agreed by the Commission at the time of the adoption of Commission resolution 2000/9. I fully agree with the Permanent Representative of Germany that there were indeed slight technical inaccuracies between the two texts. The text of Commission resolution 2000/9 is contained in chapter II of the report of the Commission on its fifty-sixth session (E/2000/23), which is now before the Council. The same edited text constituting Council decision 2000/218 is contained in the report of the Commission, and is reproduced below for ease of reference:

> "The Economic and Social Council, taking note of Commission on Human Rights resolution 2000/9 of 17 April 2000, endorses the Commission's decision to appoint, for a period of three years, a special rapporteur whose mandate will focus on adequate housing as a component of the right to an adequate standard of living, as reflected in article 25, paragraph 1, of the Universal Declaration of Human Rights, article 11, paragraph 1, of the International Covenant on Economic, Social and Cultural Rights, and article 27, paragraph 3, of the Convention on the Rights of the Child, and on the right to non-discrimination as reflected in article 14, paragraph 2 (h), of the

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Convention on the Elimination of All Forms of Discrimination against Women, and article 5 (e) of the International Convention on the Elimination of All Forms of Racial Discrimination.

"The Council also endorses the Commission's request to the United Nations High Commissioner for Human Rights to provide all the necessary resources for the effective fulfilment of the mandate of the Special Rapporteur."

On the basis of the above, I should like to request that the Council take note of this technical error made by the secretariat of the Commission and that the final version of the published compilation of resolutions and decisions adopted by the Economic and Social Council in the year 2000 be adjusted accordingly. I should also like to request that the present letter be issued as a document of the Council for its consideration and appropriate action.

(*Signed*) Shambhu Ram **Simkhada**
Chairperson of the fifty-sixth session
of the Commission on Human Rights

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Social and human rights questions: human rights

Letter dated 22 June 2000 from the Permanent Representative of Germany to the United Nations addressed to the President of the Economic and Social Council

Your attention is drawn to Economic and Social Council decision 2000/218 entitled "Question of the realization in all countries of the economic, social and cultural rights contained in the Universal Declaration of Human Rights and in the International Covenant on Economic, Social and Cultural Rights, and study of special problems which the developing countries face in their efforts to achieve these human rights", which was adopted by the Council without a vote on 16 June 2000 on the recommendation made by the Commission on Human Rights as contained in its resolution 2000/9. Germany was the main sponsor of that resolution.

Unfortunately, for technical reasons originating in the Secretariat, the text that was before the Economic and Social Council at the time of adoption of its decision 2000/218 did not fully correspond to the final text of the recommendation as approved by the Commission on Human Rights and contained in paragraph 7 (c) of resolution 2000/9.

Therefore, the correct version of Economic and Social Council decision 2000/218 should read as follows:

> "At its 10th plenary meeting, on 16 June 2000, the Economic and Social Council, having taken note of Commission on Human Rights resolution 2000/9 of 17 April 2000, endorsed the Commission's decision to appoint, for a period of three years, a special rapporteur whose mandate will focus on adequate housing as a component of the right to an adequate standard of living, as reflected in article 25, paragraph 1, of the Universal Declaration of Human Rights, article 11, paragraph 1, of the International Covenant on Economic, Social and Cultural Rights, and article 27, paragraph 3, of the Convention on the Rights of the Child, and on the right to non-discrimination as reflected in article 14 (h) of the Convention on the Elimination of All Forms of Discrimination against Women, and article 5 (e) of the International Convention on the Elimination of All Forms of Racial Discrimination. The Council also endorsed the Commission's request to the United Nations High

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Commissioner for Human Rights to provide all necessary resources for the effective fulfilment of the mandate of the Special Rapporteur."

In view of the above, I would suggest that the Economic and Social Council, without reopening the consideration of the matter, take note of this technical error and agree to include the correct text of its decision 2000/218 in the final compilation of Council resolutions and decisions adopted in the year 2000.

I would kindly request you to circulate the present letter as a document of the substantive session of 2000 of the Economic and Social Council. A copy of this letter is also being forwarded to the Chairperson and other members of the Bureau of the fifty-sixth session of the Commission on Human Rights.

(*Signed*) Dieter **Kastrup**